ARIZONA TRUST LANDS

GRAND CANYON STATE

Building an Almost 3 BILLION Fund for Arizona Classrooms

Quick Facts on Arizona's Trust Lands

Trust Land Ownership:

9 million acres of Surface Land

9 million acres of Mineral Rights

FY 2010 Revenue of $144 million:

$ 2.7 BILLION INVESTED

11.53% total return on investment

$ 130 million generated from school lands

$ 14 million generated from other trusts

$ 24 million from minerals

$ 7 million from grazing & agriculture

Arizona has about 9 million acres of surface and mineral rights, held in trust to support its public schools, the University of Arizona and other public universities, a special school for the deaf and blind, state buildings, the state mental hospital, a miners hospital, and prisons. Most of the 9 million acres (87%) and consequently most of the revenues support the public schools. Of the annual school revenue the first $72 million funds the basic education for each student with any revenue over that amount deposited in the Classroom Site Fund which is used for teacher compensation, class size reduction, AIMS intervention, teacher development, and dropout prevention in each school.

In the last few decades, the Arizona State Land Department has generated huge sums from the sale of urban land acquired through their foresight in exchanges with the federal government to acquire land around Arizona's major cities. Arizona's land office led the nation in exchanging out of wilderness areas. They acquired lands within the path of development around Phoenix and Scottsdale to benefit Arizona schools and universities. During fiscal years 2004 through 2007, the Arizona State Land Department sold 13,000 acres for $1.6 BILLION dollars. That is almost $2 BILLION in four years from sales of 0.1% of its surface lands. The average sale price per acre was $119,000 for raw, undeveloped land. The Arizona State Land Department led the nation in the price received on its school and institutional land sales.

All of the sale revenue was saved and invested, giving Arizona the third largest permanent school fund in the nation. The nation-wide recession and real estate decline in price was felt by all states but more severely by Arizona due to its former success. The nationally slumped real estate market has caused the major revenue sources for the land department to shift away from residential sales. In

FY 2010, the agency's largest annual revenue sources changed from land sales for development to the sale of perpetual rights of way, the production of minerals, and commercial leases, including some of the State's most lucrative retail and resort projects.

The perpetual right of way sales that occurred during fiscal year 2010 generated $52 million, including $34 million derived from the sale of freeway expansion lands in the Phoenix metro area. Additional sales for open space generated $10 million from Phoenix, and $7 million from Scottsdale. About 920 acres were sold in FY 2010 for an average price of $21,000 per acre. All payments on sales and perpetual rights of way are deposited in the permanent funds. Maria Baier, the Arizona Land Commissioner, indicated the agency is in no hurry to sell in a slow market. She is committed to generating revenue from the trust lands and selling for true value in a healthier market. Looking after the best interest of schools is job number 1, and the agency is willing to hold lands long-term to get zoning in place to sell at the highest value.

The second largest revenue source came from royalty production of copper, sand and gravel. This mineral production royalty generated $24 million in FY 2010. The royalty rate on copper was 5% of the value of the mineral, and sand and gravel production was charged 10-15% of value.

Grazing is the most prevalent use of the trust lands with over 90% of the lands under grazing lease. Grazing not only generates about $2.4 million for schools and universities, but it also significantly reduces the danger from wild land fire, and soil erosion, and improves the land's productivity.

Ranchers in Arizona have been good stewards of the lands. Arizona's grazing fee of $2.28 per Animal Unit Month is the lowest of the twenty western states surveyed because average forage per acre is quite limited.

The Dry Lake Wind Project in Navajo county is Arizona's first commercial scale wind farm. It is located on trust lands, private lands, and Bureau of Land Management (federal) lands. The 30 proposed wind turbines will generate about 63 megawatts of power which will be supplied to the Phoenix area. Nine of the turbines will be on trust lands generating revenue to Arizona classrooms.

Fiscal Year 2010 Revenue of $144 million:

Perpetual Rights of Way Revenue	$ 52 million
Commercial Lease Revenue on 80,000 acres	$ 22 million
Grazing on 8 million acres	$ 2 million
Agriculture on 163,000 acres	$ 4 million
Other Surface Revenue	$ 39 million
Mineral Revenue from copper, sand, & gravel	$ 24 million
Timber & Forest product sales on 0 acres	0
Conservation leases on 2,400 acres	$475,000

The State Treasurer invests $2.7 BILLION in market value in permanent endowment funds created with the proceeds of the lands. Arizona has the third largest permanent fund in the nation—in the top 1% of endowment funds. In FY 2010 the total return was 11.53%. The funds are invested under the Prudent Investor rule with half in fixed income and half in domestic equity.

Perhaps the greatest challenge to generating revenue from trust lands has been funding the agency from state tax dollars. In most states, trust land agencies are funded from the trust proceeds they generate. Most are not funded with tax dollars. In Arizona, as state coffers have contracted, agency funding has also contracted, resulting in reduced staff and loss of the institutional memory needed to develop large projects for the greatest return to schools. With under-funding also comes decreased ability to generate revenue. States have found that the old adage, it takes money to make money, is true. Beginning FY 2010, the Arizona State Land Department was partially self funded from land sale revenue and some other minor revenue sources. Self funding the Department from a portion of trust revenue could provide stability. There is, however, ongoing litigation related to that practice.

Cancelled sales have created an interesting dynamic. Because sales were financed through the agency, patents were only issued when full payment was received. Financially stable purchasers have asked for and been granted extensions. Others have cancelled their contracts, returning the lands on which infrastructure development had occurred. Many previously sold properties may be returning to the trust with infrastructure now in place. Payments on forfeited lands are treated as rental and distributed. With a limited staff, the agency is struggling to maintain these properties, while recognizing the incredible financial opportunities they offer for the future for funding public schools.